

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SSO-00 /011 W  
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AMEMBASSY MONTEVIDEO  
AMEMBASSY SANTIAGO  
AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO  
AMEMBASSY BOGOTA  
AMEMBASSY CARACAS  
AMEMBASSY LA PAZ  
AMEMBASSY LIMA

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 0820

E.O. 11652: GDS  
TAGS: PFOR PINT BR  
SUBJECT; OVERVIEW: BRAZIL

REF: STATE 016158( NOTAL)

1. PART I: THE ENVIROMENT--THE POLITICAL AND ECONOMIC  
SITUATIONS ARE MARKED BY UNCERTAINLY AND SOME LATEN DCONTENT,  
THOUGH THESE CONDITION SO FAR HAVE NOT SERIOUSLY THREATENED  
SOCIAL PEACE OR PUBLIC ORDER. AFTER 13 YEARS IN POWER, THE  
MILITARY-DOMINATED REVOLUTIONARY REGIME SHOWS INCREASING  
SIGNS OF MIDDLE-AGE MALAISE--FALTERING DYNAMISM, DECLINING  
CONFIDENCE AND CREATIVITY IN DEALING WITH THORNY PROBLEMS, AND  
IMMOBILE IN CHOOSING ITS FUTURE POLITICAL COURSE. EVEN SO,  
IN THREE YEARS IN OFFICE, PRESIDENT GEISEL HAS MAINTAINED  
SIGNIFICANT PERSONAL POPULARITY. HE RETAINS FIRM BACKING AMONG  
BULK OF MILITARY OFFICER CORPS AND THE BURAUCRACY, THOUGH HIS  
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ECONOMIC POLICIES AND CENTRALIZED DECISION-MAKING HAVE  
ERODED ENTREPRENEURIAL SUPORT. ALTHOUGH BY NO MEANS  
A COMPLETELY FREE AGENT IN RELATION TO THE MILITARY,  
GEISEL HAS BEEN ABLE TO CURB THE WORST HUMAN RIGHTS  
ABUSES BY THE SECURITY APPARATUS AND TO GUIDE THUS FAR  
THE PROCESS OF CHOOSING HIS SUCCESSOR.

2. BUT GROWING PUBLIC FATIGUE WITH REVOLUTION--MANIFESTED IN STRONG SHOWINGS BY OPPOSITION MDB IN 1974 AND 1976 ELECTIONS-- HAS SHARPENED DILEMMA GEISEL AND HIS SYSTEM CONFRONT IN DECIDING WHERE BRAZIL GOES FROM HERE POLITICALLY. GEISEL FACES OPPOSING PRESSURES FROM CONSERVATIVE ELEMENTS ON ONE SIDE TO RETURN TO GREATER AUTHORITARIANISM TO AVOID ELECTION DEFEAT FOR THE SYSTEM IN 1978 AND TO RIGHT THE ECONOMY; AND ON THE OTHER SIDE FROM BROAD AND GROWING SECTOR OF BRAZILIAN SOCIETY THAT CLAMORS FOR GREATER PARTICIPATION AND A RETURN TO THE RULE OF LAW.

3. THE BALANCE OF PAYMENTS IS BRAZIL'S MOST DIFFICULT ECONOMIC PROBLEM. HIGHER PRICED OIL AND AN INADEQUATE POLICY RESPONSE TO IT HAS GIVEN BRAZIL DURING THE LAST THREE YEARS AN AVERAGE CURRENT ACCOUNT DEFICIT OF \$6.5 BILLION FROM 1974 TO 1976. TO FINANCE THE DEFICITS BRAZIL RESORTED TO MASSIVE EXTERNAL BORROWING, WHICH BROUGHT ITS FOREIGN DEBT TO ABOUT \$28.0 BILLION AT THE END OF 1975, STRAINING THE COUNTRY'S CAPACITY FOR EXTERNAL BORROWING. AFTER SOME HESITATION THE GOVERNMENT TO REDUCE DANGEROUSLY HIGH INFLATION AND NARROW THE CURRENT ACCOUNT DEFICIT, HAS ESTABLISHED A VERY AUSTERE STABILIZATION PROGRAM WITH A MIX OF MONETARY AND FISCAL POLICIES, INCLUDING A REDUCTION IN INVESTMENTS IN THE PUBLIC SECTOR.

4. THE GOVERNMENT HAS A REASONABLE TO GOOD CHANCE OF MANAGING ITS BALANCE OF PAYMENTS PROBLEM, ASSUMING THERE IS THE POLITICAL WILL TO RESIST PRESSURES FROM INTERESTED  
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SECTORS TO EASE UP; THESE PROBABLY WILL START INCREASING DURING THE SECOND HALF OF THE YEAR. BUT IF THE GOVERNMENT RELAXES ITS ECONOMIC POLICIES BEFORE THEIR INTENDED IMPACT IS FULLY REALIZED, SEVERE LONGER- TERM DIFFICULTIES COULD RESULT.

5. THE SOCIAL CONSEQUENCES OF AUSTERITY ARE ONLY NOW BEGINNING TO BE FELT. THERE IS GENERAL EXPECTATION THAT THIS YEAR WILL SEE FURTHER CURBS ON WAGE GAINS, A CONTINUED BUT DECELERATING RISE IN THE COST OF LIVING, AND SOME UNEMPLOYMENT.

6. MAJOR POLICY OBJECTIVES AND STATUS OF RELATIONS-- BRAZIL'S SIZE, ITS INDUSTRIAL AND ECONOMIC IMPORTANCE AND ITS POTENTIAL FOR FURTHER GROWTH MARK IT AS AN EMERGING POWER, PRESUMED TO BE CAPABLE OF ACHIEVING GREAT POWER STATUS BY THE END OF THE CENTURY. AN OVERARCHING OBJECTIVE OF THE US IS TO RECOGNIZE AND IDENTIFY WITH BRAZIL'S DRIVE FOR STATUS SO THAT BRAZIL WILL USE HER HEIGHTENED TO PLAY A

CONSTRUCTIVE WORLD ROLE IN COOPERATION WITH THE INDUSTRIAL DEMOCRACIES. IN MORE SPECIFIC TERMS, NOW AND INTO THE FUTURE OUR OBJECTIVE ARE TO SEE BRAZIL: (A) APPLYING ITS EXPANDING INFLUENCE IN AREAS OF ITS MIDDLETERM PRIME CONCERN, SUCH AS LATIN AMERICA AND AFRICA IN WAYS CONSISTENT WITH OUR INTERESTS; (B) PURSUING RESPONSIBLE SOLUTIONS TO THE GREAT QUESTIONS OF INTERDEPENDENCE AND THE CHANGING INTERNATIONAL ORDER; AND (C) SUPPORTING THE GENERAL INTERESTS OF THE US AND THE WEST ON MULTILATERAL POLITICAL AND SECURITY ISSUES.

7. A CONTINUING OBJECTIVE IS TO SAFEGUARD OUR LARGE TRADE AND INVESTMENT POSITION IN BRAZIL AND TO ENCOURAGE BRAZIL TO DEAL COOPERATIVELY AND CONSTRUCTIVELY WITH US ON BILATERAL TRADE ISSUES ARISING OUT OF BRAZIL'S INCREASING COMPETITION IN US AND WORLD MARKETS. A FINAL MAJOR OBJECTIVE IS TO ENCOURAGE BRAZIL TO COMMIT ITSELF TO HIGHER STANDARDS OF CONFIDENTIAL

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HUMAN RIGHTS.

8. THE CURRENT STATE OF US-BRAZIL RELATIONS IS NOT GOOD. AT THIS MOMENT, BECAUSE OF THE INTENSE FEELINGS AROUSED BY THE NUCLEAR ISSUE, THE RELATIONSHIP MAY BE AT ITS LOWEST POINT SINCE 1963. AS BRAZIL'S DEVELOPMENT HAS ADVANCED, BRAZIL HAS COME TO VIEW THE US MORE AS AN OBSTACLE THAN AS A COLLABORATOR IN ITS PROGRESS AND TO PERCEIVE THAT ITS OBJECTIVES ARE BEST ADVANCED BY DIVERSIFYING ITS SOURCES OF MARKETS, INVESTMENTS AND TECHNOLOGY THROUGH CLOSER TIES WITH THE OTHER ADVANCED INDUSTRIAL NATIONS AND BY CLOSER IDENTIFICATION WITH THE THIRD WORLD. STRAINING OUR CURRENT RELATIONSHIP ARE SERIOUS BILATERAL ISSUES, SOME OF THEM INTRACTABLE. SIMULTANEOUSLY, THE BRAZILIAN JITTERINESS OVER THEIR OWN UNCERTAIN INTERNAL SITUATION, THE DEPARTURE OF FAMILIAR AND FAVORABLY DISPOSED INTERLOCUTORS IN WASHINGTON, AND UNEASINESS OVER THE NEW ADMINISTRATION'S INTENTIONS HAVE LEFT THE BRAZILIANS NERVOUS, EDGY, AND HYPERSUSPICIOUS OF EVEN ROUTINE US ACTIONS OR STATEMENTS.

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AMEMBASSY LA PAZ

AMEMBASSY LIMA

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PART II: THE MAJOR PROBLEMS

1. NUCLEAR PROLIFERATION: BECAUSE OF THE GULF BETWEEN OUR POSITIONS, THIS, THE CENTRAL AND DOMINANT ISSUE IN US-BRAZILIAN RELATIONS, HAS THE POTENTIAL FOR CREATING SERIOUS AND IRREPARABLE DAMAGE TO THE RELATIONSHIP. INDEED, THAT DAMAGE MAY HAVE ALREADY BEEN DONE.

2. TRADE: BECAUSE OF THE IMPERATIVE BRAZILIAN NEED TO BRING THE BALANCE OF PAYMENTS UNDER CONTROL, FURTHER US PROTECTIONIST ACTIONS, WHICH APPEAR INEVITABLE, WILL HAVE MAJOR ADVERSE EFFECTS HERE. THE ITC RECOMMENDATION ON SHOES, WHICH HITS BRAZIL ESPECIALLY HARD, IS BY FAR THE BIGGEST THREAT THAT THE BRAZILIANS FACE, AND IT IS VERY BIG. MOREOVER, THE NAGGING COUNTERVAILING DUTY CASES ON SCISSORS/SHEARS AND ON COTTON YARN WILL HAVE A NEGATIVE POLITICAL AND PSYCHOLOGICAL IMPACT MUCH GREATER THAN THE CONFIDENTIAL

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DOLLAR AMOUNTS INVOLVED WOULD WARRANT. IN ADDITION TO THE PROBLEMS CREATED BY US TRADE RESTRICTIONS, COFFEE CAN BECOME AN EVEN MORE CONTENTIOUS ISSUE AS THE PRICE CONTINUES TO RISE, PARTICULARLY IF THE GOB DEMONSTRABLY TRIES TO MANIPULATE THE MARKET. BRAZILIAN IMPORT RESTRICTIONS, ALREADY IRRITATING TO US, CAN WELL INCREASE TO OUR DISADVANTAGE, PRINCIPALLY AS A RESULT OF THE NECESSITY TO BRING THE COMMERCIAL ACCOUNT INTO NEAR BALANCE BUT ALSO, QUITE POSSIBLY, AS A CONSEQUENCE OF UNPUBLICIZED GOB RETALIATION AGAINST OUR ACTIONS CONSIDERED HURTFUL IN THE TRADE SECTOR AND IN OTHER AREAS

OF THE RELATIONSHIP.

3. HUMAN RIGHTS: SPECIFIC RESTRICTIVE MEASURES AGAINST BRAZIL BY EITHER THE CONGRESS OR THE EXECUTIVE WILL PRODUCE A STRONG, NEGATIVE REACTION WITHIN THE GOB, PARTICULARLY BECAUSE THEY WOULD APPEAR TO IGNORE OR GIVE NO VALUE TO PRESIDENT GEISEL'S EFFORTS (QUITE SUCCESSFUL AS OF NOW, IN THE EMBASSY'S OPINION) TO PROTECT THE PHYSICAL INTEGRITY OF POLITICAL PRISONERS. THE EMBASSY HAS RECORDED ITS VIEW THAT AT PRESENT THERE DOES NOT EXIST A "CONSISTENT PATTERN" OF GROSS VIOLATIONS. SHOULD THE MEASURES GO BEYOND THE BASIC QUESTION OF THE INTEGRITY OF THE HUMAN BEING AND BE DIRECTED AGAINST THE UNDEMOCRATIC FEATURES OF THE POLITICAL SYSTEM, THE REACTIONS WOULD BE STRONGER AND BROADER, AROUSING SENTIMENTS OF NATIONALISM AND ANTI-INTERVENTIONISM OUTSIDE THE GOVERNMENT ITSELF. OUR OWN ON-GOING, UNDRAMATIC WORK TO MAKE CLEAR THE US POSITION ON HUMAN RIGHTS WILL CONTINUE TO CREATE FRICTIONS FROM TIME TO TIME WITH THE GOB, BUT THOSE COSTS, BY THEMSELVES, ARE SUPPORTABLE. MOREOVER, THEY ARE COMPENSATED FOR, TO SOME EXTENT, BY POSITIVE REACTIONS OUTSIDE ESTABLISHMENT CIRCLES.

4. THE FATE OF THE CONSULTATIVE MECHANISM: THE GOB HAS BEEN WAITING TO SEE WHETHER THE USG WILL CONTINUE TO  
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ABIDE BY THE FEBRUARY 1976 MEMORANDUM OF UNDERSTANDING. VERY RECENT ACTIONS SHOULD HAVE REDUCED THE GOB'S CONCERNS CONSIDERABLY, BUT THERE WILL CONTINUE TO BE WARINESS.

5. FINAL OBSERVATIONS: IN ADDITION TO THESE MAJOR PROBLEMS, THERE IS AN EXTENSIVE LIST OF SECONDARY ISSUES, FOR EXAMPLE: THE VARIOUS USG ACTIONS AFFECTING THE MILITARY RELATIONSHIP DIRECTLY; FRICTION IN THE CIVIL AVIATION FIELD; AND THE PROSPECTIVE PUBLICATION OF ADDITIONAL DOCUMENTS ON US-BRAZILIAN RELATIONS. IN NORMAL CIRCUMSTANCES, THESE QUESTIONS WOULD NOT LOOM EXCESSIVELY LARGE. ALL OF THEM, AS WELL AS ALL THE MAJOR PROBLEMS, WILL BE MAGNIFIED, HOWEVER, BY THEIR INTERACTION WITHIN A NEGATIVE ENVIRONMENT. EACH OF THE PROBLEMS, FOR EXAMPLE, IS BEING INFECTED BY THE NUCLEAR ISSUE, NOT ONLY BECAUSE OF THE HOSTILE ATMOSPHERE IT HAS ENGENDERED BUT ALSO BECAUSE OF INEVITABLE RETALIATION BY THE GOB ELSEWHERE, WHICH WILL EITHER WORSEN EXISTING PROBLEMS OR CREATE NEW ONES. THERE ARE, OF COURSE, LIMITATIONS ON THE GOB'S RETALIATORY CAPACITY, ESPECIALLY IN THE ECONOMIC FIELD; THE GOB MUST MAINTAIN ITS STANDING IN THE CAPITAL MARKETS. NEVERTHELESS, THE PROSPECTS FOR THE US-BRAZILIAN RELATIONSHIP IN 1977 ARE IN THE NET POORER THAN THEY HAVE BEEN IN MANY

YEARS.

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